Respondent: Rebecca Bachelder

1. Refer to Hess initial comments at 5. Please support Hess' assertion that, under the slice of system method, marketers have higher average costs than the local distribution companies ("LDCs") due to stranded, fragmented capacity, and marketers with a small market share have higher average costs than marketers with larger market shares for the same reasons.

Response:
The response to this question is directly dependent on the data required to respond to IR Hess-26. Hess will supplement its response as soon as that analysis is complete. It is anticipated that the supplement will be available on or before June 22.

Respondent: Rebecca Bachelder

2. Refer to Hess initial comments at 7 and Bay State Gas Company's ("Bay State") reply comments at 6. Please address: (1) how the path approach addresses the "non-price differentials" as discussed by Bay State, and (2) what measures can be taken to either eliminate or reduce the risk of leaving higher-cost capacity to the LDCs to serve the sales customers.

Response:

Bay State's comments refer to the difference between Canadian delivered supplies and domestic supplies. Each LDC's Canadian resources may need to be treated separately from domestic resources, as it is our understanding that Canadian pipeline rate design differs significantly from rate design policies set at FERC. There may need to be a separate path for Canadian managed supplies.

With respect to domestic paths, our proposal does not necessarily have marketers picking paths unless it makes sense to do so. As long as paths are equitable between the LDC and the marketers, Hess does not object to the LDCs selecting the paths. The goal would be for LDCs to put together an average path(s). A movement to the path approach should be a revenue neutral change from the slice. It is not our intent to "game" a different method of assignment. We are simply looking for ways to ease the administrative burden, buy and flow gas more efficiently and eliminate stranded costs to provide our customers with the most competitive price.

Respondent: Rebecca Bachelder

3. Refer to Hess initial comments at 7. Please support Hess' claim that capacity assigned to marketers in Massachusetts is worth less than capacity held by the LDCs.

Response:

Please refer to our response to IR Hess-1 for a discussion of average cost. Typically, any assignment of less than 100 Dths per day is unlikely to be used and is therefore stranded. In addition to higher average costs due to fragmented, stranded capacity, the practice of monthly releases and recalls devalue deals where marketers release capacity to another party. Contract numbers change every month when capacity is recalled and re-released monthly, and the counterparty must go through the same burdensome exercise of having capacity recalled and re-released while contract numbers continuously change. Capacity released this way will be devalued. We cannot quantify the difference, but the market will establish a price. Furthermore, some capacity cannot be mitigated, again, because of its size. This renders the capacity valueless in off-periods.

Respondent: Rebecca Bachelder

4. Refer to Hess initial comments at 8. Please provide (a) support for Hess' assertion that when imbalance penalties were originally established, the commodity price ranges were fairly stable day-to-day and even during OFO periods did not deviate significantly from non-OFO periods. Also, show that recent gas prices have routinely reached the $15 to $25 per Dth level during OFO periods, and range as high as $75 per Dth and
(b) Explain whether imbalance penalties should be set at a level that deters imbalances during critical periods or should be set so that they do not inconvenience "out of balance" marketers.

Response:

a) During 1998 when the Model Terms & Conditions were negotiated, the highest Zone-6 price experienced was $3.225 on December 31, 1998 and the lowest was $1.38 on December 4, 1998. See attached Schedule 1. A 5x index penalty would have resulted in penalties of $16.13/Dth if an OFO had been called on December 31, 1998 and had the terms & conditions that were negotiated and submitted to the Department during that year been in place throughout the entire year.

Schedules 2 & 3 show daily average index prices at Algonquin and Tennessee city gates from 2001 thru 2004 during OFO periods. There were 44 OFO days during which at least one of the MA LDCs declared an OFO on Algonquin over the last 3 winters, and 127 days on Tennessee. There has not been an OFO day on Algonquin during the last 3 winters in which the daily index price was less than $7.00; there were 29 days out of 44 that were in the $10 range or above, and 8 days - all during 2003 and 2004 - that were in the $15 range or above. Penalties would have ranged from a low of $35.20 per Dth to as high as $342.10 per Dth during this period. On Tennessee, index prices were greater than or equal to $7.00 on 71 out of the 126 OFO days and all of the 2004 OFO days were greater than $7.00. All 2004 OFO index prices were in the $10 range or above, which would have yielded at least $50 per Dth penalty rate. While these prices show the average price of the trades made at these city gates, in most cases we do not have the highs that are part of these averages.

On January 15, 2004 gas traded as high as $75. See "Investigation of New-England Gas-Electric Market Events January 13-16, 2004" presented to New England Conference of Public Utilities Commissioners, May 24, 2004, by William Hederman, Director Office off Market Oversight and Investigations, Federal

Respondent: Rebecca Bachelder

Energy Regulatory Commission, page 5 attached. Presentation can be accessed at http://ferc.gov/eventcalendar/files/20040524155310-05-24-04-necpuc.pdf

b) Penalties should always provide an incentive to perform, but should not be overly punitive. Once penalties reach a certain level, the ability to deter behavior plateaus. Anything higher becomes punitive. Penalty levels have never been a matter of being inconvenienced. The incentive to perform is a critical element to reliability.

When Boston Gas initially established the 5X index standard in 1996, the standard came about because 5X index approximated the pipeline penalty level of $15 / Dth imbalance penalty. That calibration is no longer valid. This does not mean that the $15 per Dth penalty level is appropriate at all times. However, 2X index does provide an adequate incentive to perform. Marketers will try and avoid unnecessary costs. A penalty level set at twice the average daily index price is more than sufficient to provide incentives for the proper behavior.

Respondent: Rebecca Bachelder

5. Refer to Hess initial comments at 9-14 and Algonquin reply comments at 1-2. Please verify the accuracy of the information provided by Algonquin regarding (a) the Hubline Project, and (b) the total amount of capacity listed in Table A for the Algonquin system. Also, indicate the proportion of the Tennessee capacity in Table A that includes lateral capacity that is not part of the mainline system available to serve retail customers in Massachusetts.

Response:

a) Algonquin is correct on a technical basis that Hubline does not interconnect directly with Tennessee. However, Maritimes pipeline connects with Tennessee, and Hubline connects with Maritimes, thereby indirectly linking the Algonquin and Tennessee systems.
b) Hess does not have the ability to distinguish between lateral and mainline capacity. The pipelines are better situated to identify whether capacity is lateral or mainline. If the capacity held by non-LDC shippers is lateral capacity, the numerator in Table A should be adjusted as well as the denominator. In any event, the point is that there are marketers that have purchased capacity into New England. These may be retail, wholesale or wholesale to electric generators or may be purchased directly by a customer. The use of the capacity is not something that is publicly available. While we have tried to cull out electric generators and do not have perfect knowledge of the end uses of all of the capacity, the fact of the matter is that all of the capacity listed on Table A is capacity purchased by entities other than LDCs.

   We do not make the case that the pipelines are liquid. We do not state that marketers hold non-assigned capacity to Massachusetts's city gates. In fact, we state that it would be odd if marketers did hold capacity to Massachusetts's gates because they are assigned capacity for that load.

   Our point in our testimony is that if the Department does not actively enable capacity transition, it will never happen because marketers have no incentive to purchase primary point capacity to serve load that they will be assigned capacity for.

Respondent: Rebecca Bachelder

6. Refer to Hess initial comments at 9-14. Please,

(a) Provide figures showing the length of capacity contracts held by each marketer listed in Table A on page 3 on the Tennessee and Algonquin mainline systems with New England citygates.

(b) Indicate which of the marketers listed in the Table on page 3 serve the Massachusetts market. Calculate the average length of capacity contracts held by these marketers on the Tennessee and Algonquin mainline systems with New England and Massachusetts citygates.

c) Provide figures showing the length of capacity contracts held by each LDC and power generator in Massachusetts on the Tennessee and Algonquin systems with New England citygates.

(d) Calculate the average length of capacity contracts held by Massachusetts LDCs on the Tennessee and Algonquin mainline systems with New England and Massachusetts citygates.

Response:

a) This data is publicly available for Algonquin at http://www.link.duke-energy.com/ by pressing Algonquin on the menu, then Customer Activities, (press cancel on enter network password), then Informational Postings, then Capacity Index of Customers. It is available for Tennessee at and http://www.tennesseeadvantage.com/default.asp by pressing Informational Postings, then Index of Customers.

b) Retail marketers in Massachusetts include Hess, Energy East Solutions, Select Energy and Sprague Energy. Weighted average contract length for MA retail marketers as of June 9, 2004 is attached.

c) And d) The length of contract was raised by Bay State Gas, and it would be more appropriate for each LDC to calculate parts c and d as they are in a better position to speak to their own contracts.

Hess' proposal asks that marketers be treated no differently than the LDC is treated when it purchases primary capacity to the LDC's citygate that offers rights of first refusal and may be of sufficient duration to satisfy planning standards. This equal treatment is likely to change the marketers' current purchasing strategy, making current data irrelevant.

Respondent: Rebecca Bachelder

7. Refer to Hess initial comments at 14. Please support the claim that other than the Algonquin pipeline capacity, most of the rest of the capacity held by the Massachusetts LDCs has substitutes in the market.

Response:

The following are all substitutes for traditional Algonquin or Tennessee capacity from the gulf:

- ?? Backhaul is available on Tennessee flowing from Maritimes.
- ?? Backhaul is available on Algonquin flowing from Maritimes.
- ?? Distrigas provides alternatives to both storage and year round capacity into the Tennessee System.
- ?? Iroquois provides an alternative for delivery on Tennessee into Zone 6.
- ?? Transco, Columbia and Tennessee are potential substitutes for Texas Eastern. .

Respondent: Rebecca Bachelder

8. Refer to Hess initial comments at 14. Please indicate what percentage of the capacity held by each LDC in Massachusetts is not being used to serve firm load.

Response:
The question would be better answered by each of the LDCs as they each have the most recent data on their systems. Hess' statement referred to capacity held by each LDC for future growth, which most LDCs have; we do not know how much. We also know from experience that there are LDCs in other New England States who backstop transportation load by unnecessarily retaining capacity equivalent to that transportation load.

Respondent: Rebecca Bachelder

9. Refer to Hess initial comments at 14.
   (a) What is the assurance that the surplus capacity that Massachusetts LDCs turn back to the pipelines to re-market or release to the secondary market on a non-recallable basis will remain available to Massachusetts LDCs and marketers when they need it?
   (b) What are FERC's regulations governing the award of capacity to shippers in the primary and secondary markets? Provide copies of the FERC regulations governing the award of capacity to shippers in the primary and secondary markets.
   (c) Discuss the extent to which the release of the surplus capacity held by Massachusetts LDCs to the pipelines or to the secondary market will improve liquidity on the regional pipelines with Massachusetts city gates, and how the improved liquidity will benefit Massachusetts customers.

Response:

a) Capacity released without recall will return to the LDC at the end of a term-defined release. If it is truly surplus, it should not necessarily be used in Massachusetts if it has more need in another location along the pipeline. If the capacity is surplus, Massachusetts reliability will not be harmed if the capacity is used elsewhere.
b) Please see the following website: http://www.ferc.gov/legal/ferc-regs/land-docs/RM98-10-005.asp
c) Such releases would increase the number of transactions and make it possible for other shippers to acquire capacity into Massachusetts. The benefits include more efficient use of assets. LDC customers will receive a direct benefit through the flow back of capacity release revenues in the CGA. Other shippers will be able to acquire capacity at either tariff or market prices and will be able to provide value to their customers or else they will lose those customers to competition.

Respondent: Rebecca Bachelder

10. Refer to Hess initial comments at 15-18.
(a) What is the assurance that the capacity that LDCs transition to marketers under a voluntary capacity assignment system as proposed by Hess will remain available to Massachusetts LDCs if the marketers decide to exit the Massachusetts market?
(b) Discuss the voluntary capacity assignment system as it operates in New York and any other state regarding the disposition and re-awarding of capacity held by marketers who exit those markets.

Response:

a) Hess is willing to enter into an agreement whereby it will assign its Massachusetts capacity to the LDC if Hess decides to exit the market, unless Hess is able to sell its customers to another supplier who would instead take the capacity.

b) The New York capacity assignment program requires that marketers hold capacity with primary points into the LDC for the 5 winter months. Marketers can use capacity released from the utility or can bring in their with an affidavit certifying that the capacity is primary to the LDC's gates. It is more difficult to acquire capacity in the NY city area as the utilities hold all of the capacity. Most suppliers serving NY City area customers acquire capacity through a release from the LDC. The utility selects a path for marketers and defines the path. Capacity is released in quantities of the average day of the peak month. Incremental quantities are adjusted throughout the winter as the marketer's pool changes. At the end of the month, the LDC applies an adjustment to make the economic cost of the capacity path assigned to the marketer equivalent to the average cost of capacity for the LDC. There is no basis adjustment. On average, basis costs are offset. NY does not release any Canadian capacity. Keyspan fixes the winter release at the beginning of the winter and then sells incremental city gate supply to take the marketer through the peak months, or the suppliers can bring in their own peaking capacity. Releases are made through prearranged deals at maximum tariff rates. The primary point requirement is in place from the delivery point at the LDC back to a receipt point in a liquid pooling area. Most upstate companies release capacity back to liquid pooling points whereas downstate LDCs generally release capacity back to the gulf.

If a marketer exits, released capacity goes back to the utility, and generally other marketers acquire the exiting marketer's customers as there is an active market in New York with many marketers.

Respondent: Rebecca Bachelder

11. Refer to Hess initial comments at 15-18. Please discuss any structural differences (e.g., size of market, number of interstate pipelines, storage facilities, regulatory framework, etc.) between the natural gas markets in Massachusetts, New York, and Rhode Island. Identify all the interstate pipelines (mainline pipelines) and citygates that serve each market.

Response:

While there are some differences between the natural gas markets in Rhode Island and New York, there are more similarities. All 3 states share weather extremes, and all 3 states have similar high priority loads. Rhode Island is served with the same pipelines as Massachusetts and is similar in size to Bay State or NStar. Rate classes and rate design are very similar between the Massachusetts and Rhode Island companies. Although storage in the regions may come from different sources, all 3 states have storage capabilities within the LDC's service territory. Massachusetts and Rhode Island have LNG, while New York has underground storage; each serves their respective market area with peaking resources. Massachusetts, Rhode Island and upstate New York each suffer from being at the end of their respective pipelines.

Downstate New York is not situated at the end of the pipeline, as are Upstate New York, Rhode Island and MA. The overall New York State market is approximately 4 times the size of Massachusetts, whereas Rhode Island's New England Gas is comparable to Bay State or NStar in size and type of market.

Response:

Pipelines Serving:	
New York	Dominion, Transco, Tennessee, Iroquois, Empire, Algonquin, Texas Eastern and National Fuel
Massachusetts	Algonquin, Tennessee, Maritimes, Hubline
Rhode Island	Algonquin, Tennessee

Respondent: Rebecca Bachelder

12. Refer to Exhibit AHC-2 of Hess initial comments. Please revise the Table for New York to include figures for Upstate New York only. Compare the figures for Upstate New York with those for Massachusetts.

Response:
Please see attached for Upstate New York customers and load.
Please note that data associated with New York's largest industrial customers is not included as they are not part of New York's aggregation program. This will distort the load comparisons with those of Massachusetts. The source of the original data is:
http://www.dps.state.ny.us/Gas_Migration.htm
Data is updated periodically and has been updated since Hess' initial comments were drafted. Additionally, Hess is unable to compare New York data with Massachusetts until the MA LDCs provide that data.

Respondent: Rebecca Bachelder

13. Refer to Exhibit AHC-2 of Hess initial comments.
    (a) Please update the information in the Tables for New Jersey and New York to include (I) total distribution load, (ii) total load served by competitive marketers, (iii) percentage of total load that have switched, (iv) the average load served per marketer, and (v) the average number of customers served per marketer.
    (b) Compare the figures in (a) with the corresponding figures for Massachusetts.

Response:

a) Please see the attachment for New Jersey & New York customer and load information. The New Jersey PUC does not provide switching load data on its website, therefore, Hess is unable to determine average load switching in New Jersey. Note – New York data does not include data from the largest industrial customers who switched prior to 1996 and are not included in the aggregation program making it difficult to compare with data from other states where these customers are included.
b) Most MA LDCs did not provide data the Department requested in their initial comments. Hess notes the Department has requested this data in this set of interrogatories. When Hess is able to examine the LDC responses, it will provide the Massachusetts comparison data in the form attached.

Respondent: Rebecca Bachelder

14. Refer to Exhibit AHC-1 of Hess initial comments.
    (a) Please calculate the average number of contracts that Hess managed in December 2003, January 2004 and February 2004 in Massachusetts, Rhode Island and New York on each pipeline.
    (b) Please calculate the average number of contracts that Hess managed in December 2003, January 2004 and February 2004 in Upstate New York only (excluding other areas of New York) for each pipeline that serves that area.

Response:
Please see attached.

Respondent: Rebecca Bachelder

15. Refer to Exhibit AHC-3 of Hess initial comments.
    (a) Please revise the Tables for New York and New Jersey to include only suppliers and not agents or brokers.
    (b) What are the average load and the average number of customers served per supplier (excluding agents and brokers) in New York, New Jersey and Massachusetts? Present your answer separately for the residential and commercial & industrial (C&I) markets.
    (c) If figures are available for Ohio and Georgia, please calculate the average load and the average number of customers served per supplier (excluding agents and brokers) in those states. Present your answer separately for the residential and commercial & industrial (C&I) markets
    (d) Based on these figures, and on Hess' experience in retail marketing, what should be the optimal number of suppliers (excluding agents and brokers) that should serve the Massachusetts market?

Response:

a) To the best of our knowledge, the NY and NJ numbers include only suppliers and do not include agents or brokers so the original Exhibit AHC-3 is responsive.
b) These calculations have been added to the schedule attached to IR Hess-13.
c) Hess was unable to find data regarding Georgia switching data. The data from the Ohio programs is attached and was retrieved from the Ohio PUC website.
d) Hess does not know what the optimal number of suppliers would be. The economic definition would indicate that the optimal amount of competition is reached when marginal price equals marginal cost. It is not possible for Hess to quantify how many marketers are necessary to operate in the Massachusetts market before equilibrium is achieved.

Respondent: Rebecca Bachelder

16. Refer to Hess initial comments at 4-8. Please,
    (a) Discuss any problems with the implementation of the path approach in New York and Rhode Island, including possible problems with the over-subscription of a particular path(s) by marketers. How did New York and Rhode Island address these problems?
    (b) Discuss any problems with the implementation of the annual recall and re-release of capacity in New York. How did New York address these problems?

Response:

a) Hess has not experienced any problems with the path approach for either New York or Rhode Island. New York assigns paths to marketers and Rhode Island allows the marketer to prioritize which paths it would like.
b) Hess has not experienced any problems with the annual recall and re-release of capacity in New York.

Respondent: Rebecca Bachelder

17. Hess reply comment s at 6 states that many Public Utility Commissions periodically provide data on the Internet regarding market indicators to enable interested parties to check the pulse of the competitive market. In this regard please, discuss what information Hess would be willing to share and post on the internet to facilitate information that would help the competitive market in Massachusetts.

Response:

Hess believes the LDC as the system operator, is the best source to provide switching information. Hess already provides the Department with information regarding the type of customers it serves.

LDCs provide the data posted on various PUC web sites with regard to switching statistics by rate class, or switching data in aggregate, and the number of marketers serving various classes of customers within various LDCs. The data provided is determined in a consistent, unbiased way. We recommend that any data be presented in aggregate and not by marketer due to the competitively sensitive nature of the data. Even it the data is presented by anonymous marketer, it is usually easy for other marketers to ascertain the identity of the "anonymous" marketer.

Respondent: Rebecca Bachelder

18. Please provide information on how much of the incremental capacity in New England (since the 1999 Gas Unbundling Order) has been subscribed by gas-fired electric generation plants and traditional residential and C&I gas markets.

Response:

Hess does not have this information, nor does it believe the pipelines have this information. Information would need to be gathered from numerous sources, not all public, and not likely shared with competitors. This type of information is generally the subject of expensive consulting studies done by trade associations or by government agencies.

Respondent: Rebecca Bachelder

19. Hess reply comments at 9 states that after the issuance of the Department's Order DTE 98-32-B, marketers divested themselves of customers who were unprofitable because there was no possibility of gaining the scale required serving that class of customer with the economics of a slice approach capacity assignment. In this regard, please:
    a) Discuss what Hess means by "economics of a slice approach";
    b) Does Hess imply that the economics of a path approach will give Hess the necessary scale to serve the small customer classes? Please explain.

Response:

a) Hess statement at 9 not only referred to the slice approach, but also to the imposition of capacity assignment, so the economics include both capacity assignment and the slice approach. If marketers assume the LDC's cost structure, it limits the markets that marketers are able to serve.
b) Hess does not serve small customers in any market and has no plans to do so at this time.

Respondent: Rebecca Bachelder

20. Hess initial comments at 8 states that the New York method of recall and release process will improve efficiencies for both LDCs and marketers. In this regard, please discuss the sort of efficiencies Hess refers to and explain how the LDCs will also benefit from it.

Response:

Hess refers to both the administrative and economic burden of the recall and re-release of up to 100 contracts per month for a marketer in Massachusetts. Administratively, monthly recall and re-release involves the set up of new contract numbers each month to use to nominate resources. Every time an LDC releases capacity, it must post that release on the pipeline's bulletin board. If it only has to post releases once every 3 or 4 months instead of once every month, that reduces the manpower needed to administer its program. Furthermore, if the LDC adopts a path approach, that release would involve the LDC posting only a handful of contracts instead of 10 to 20 contracts per marketer per month necessary now.

Economic inefficiencies are discussed in IR Hess-3.

Respondent: Rebecca Bachelder

21. Please explain the reasons why competitive suppliers do not serve, as a general basis the residential and small C&I segments.

Response:

Hess does not serve the small customer market as a strategic decision. Each marketer chooses the market segment(s) it targets. There are some marketers who actively pursue small customers, however, and we believe it is because certain conditions are necessary for marketers to serve large numbers of small, low margin customers. For example, there are a number of marketers who target small customers in New York, where there have been specific provisions made to facilitate serving small customers. Each LDC in NY is required to utilize standardized electronic business transactions in doing business with marketers. Most NY LDCs also provide billing services for marketers serving customers on their systems. New York only requires mandatory capacity assignment to points upstream on the pipeline system that are liquid, and only requires marketers to hold primary capacity for the 5 winter months. These measures all improve the economics of serving small customers.

Other barriers to serving small customers with small margins include the high cost of customer acquisition, customer support and the cost of customer retention. These costs must come down in order to attract and maintain these customers profitably. New York LDCs have facilitated moving small customers to the competitive market by pre-marketing to customers the benefits of competition. Bay State also marketed its Pioneer Valley Pilot program very successfully in the Mid 90's. In order to effectively move small customers to the competitive market, the LDC must be supportive and efficient in their operations with marketers. There is a much greater risk of failure if the LDC is not supportive with a small customer target market where the marketer is looking for large numbers of customers than with a large customer market where the marketer has a much smaller number of large customers.

Respondent: Rebecca Bachelder

22. Please discuss fully the following issues:
(a) Potential regulatory policies that the Department could implement to encourage competitive suppliers to serve the residential and small C&I segments;
(b) How the voluntary capacity assignment and the path approach could spur competition at the residential and small C&I retail markets.

Response:
Although changes to regulatory policies to encourage suppliers to serve small customers would not affect Hess' target market in the foreseeable future, they may encourage other market participants to enter the market and serve small customers. These would include changes identified in the previous response (IR Hess-23) that have been adopted by other jurisdictions where small customer marketers have acquired significant numbers of customers.

Respondent: Rebecca Bachelder

23. Please provide a list of the entry barriers in the retail Massachusetts market.

Response:

The primary barriers to entry (and to remain) in the Massachusetts market include the following:

- The number of small LDCs and the lack of uniformity in business operations inherent in each of the utilities present significant barriers. Although the terms and conditions of operation are standardized, business processes between LDCs are not. Below are just a couple of examples for illustration:
  - LDCs use different methods to transfer data to the marketers; Berkshire and NStar use EDI, Bay State has a website, the rest send various forms of e-mailed data.
  - The format of bills for balancing that the LDCs send to marketers is different for each LDC and contains different levels and types of back-up documentation. The marketer must review each bill and pay it during the same 10-day period for each LDC.
- Mandatory capacity assignment has essentially limited the market to those who are grandfathered without capacity. Capacity assignment does not allow a marketer to differentiate themselves through their resource contracting.
- The slice approach to capacity assignment further complicates the vagaries of mandatory assignment,
- Tight operating tolerances of the LDCs make it more difficult to operate in Massachusetts than other jurisdictions - for example,
  - The LDCs limit underdeliveries to 2% on an OFO day and allow over deliveries up to 20% encouraging marketers to over-deliver, however, they do not cash out on a daily basis. Imbalances are cashed out on a monthly basis at an average of the monthly index. On OFO days, prices are much more likely to be higher than average prices for the month and marketers must overdeliver or face severe penalties (5X daily index). These rules essentially provide the LDCs with average cost gas on OFO days at the expense of marketers when the market price is much higher. Other jurisdictions cash out imbalances daily and avoid this inequity.
  - Under the same OFO restrictions as discussed above, all LDCs true up imbalances monthly to a 5% tolerance. If there is an OFO restriction in place for the majority of the month, the marketer is going to be overdelivering – helping the LDC and avoiding penalties– and at the same

Respondent: Rebecca Bachelder

time is likely going to exceed the 5% monthly balancing tolerance because they will be unable to offset overdeliveries with underdeliveries. The marketer is then penalized for helping the system. Only Boston Gas allows the marketer to deliver make-up gas to avoid the 5% penalty. Daily cash out of imbalances obviates the need to apply this monthly cash out.

?? The complexities of operating in the northeast due to for example: the temperature extremes, the need for peaking resources, and reliance on Canadian resources.

?? The lack of EDI.

The fact that a handful of marketers continue to operate in Massachusetts despite all of these obstacles is testament to the strength of the potential market; however, competition could be more robust with improvements in many of these areas.

Respondent: Rebecca Bachelder

24. Under the competitive suppliers' experience, what should the minimum savings offered by competitive suppliers be in the commodity portion of the customers' bill in order to encourage customers to migrate to transportation service?

Response:

Minimum savings requirements are decided by customers and could be percentage amounts or could be dollar amounts. Some customers don't buy from a competitive supplier for savings, but buy other things, such as risk management or price certainty or customer relationships. Once they have left the utility, they are looking at competing bids between marketers and are not looking at the LDC price, making price comparisons with the LDC price no longer relevant. In our experience, the reasons for switching initially are specific to the customer.

Respondent: Rebecca Bachelder

25. Please discuss the minimum scale necessary (in terms of volume and / accounts) to maintain profitable retail operations in the gas Massachusetts market.

Response:
Minimum scale depends on so many variables that it is difficult to discuss in generic terms. Scale depends on the market targeted and also depends on the fixed cost of the infrastructure built by the marketer to serve the customers. For some marketers, a single large customer would satisfy their requirements of scale. Some target markets may be profitable whereas others may not be profitable at any scale due to numerous operating or regulatory requirements.

Respondent: Rebecca Bachelder

26. Please provide a Table with the number of monthly contracts stranded due to their small size since 1999 to January 2004 as well as the total MDQ associated to them, and the monetary value of them.

Response:

Hess is unable to provide this data as it does not keep detailed records of stranded capacity. However, we will attempt to recreate a month of stranded contract data to provide a recent example of the stranded contract problem. Hess will supplement its response as soon as that analysis is complete. It is anticipated that the supplement will be available on or before June 22.

Respondent: Rebecca Bachelder

27. Please discuss and fully support your answer with respect to the reduction in the number of marketers since 1999 up to day. Is it because consumers decide to migrate back to the LDC or it is because marketers leave the system and as a result, customers have to go back to default service?

Response:

From direct experience, customers are generally satisfied with their contracts with marketers, as long as the marketer efficiently administers their contract. Most customers would prefer to remain in the competitive marketplace Most of the migration of customers back to default service has been due to marketers leaving the system due to the barriers identified in IR Hess-23 and their lack of knowledge of the New England and Massachusetts market. Customers were only returned if there was no replacement marketer to purchase the customer or to pick the customer up once their contract ended with the departing marketer. Most commercial and industrial customers have been sold to other marketers and have not been returned to the utility